

AR19

Canfor Investments Ltd.



Annual Report  
1977

# Corporate Data

## BOARD OF DIRECTORS

John Gerald Prentice,  
*Chairman, Canadian Forest Products Ltd.,  
Vancouver, British Columbia*

Alexander Gordon Armstrong,  
*Secretary-Treasurer, Canadian Forest Products Ltd.,  
Vancouver, British Columbia*

Harold Clark Bentall,\*  
*Chairman and Chief Executive Officer,  
The Dominion Construction Company Limited,  
Vancouver, British Columbia*

Leopold Lionel Garrick Bentley,  
*Vice-Chairman, Canadian Forest Products Ltd.,  
Vancouver, British Columbia*

Peter John Gerald Bentley,  
*President, Canadian Forest Products Ltd.,  
Vancouver, British Columbia*

Ronald Laird Cliff,\*  
*Chairman, Inland Natural Gas Co. Ltd.,  
Vancouver, British Columbia*

Joseph Bernard Jarvis,  
*Director, Canadian Forest Products Ltd.;  
Manager, Pacific Sales, Canfor Pulp Sales Ltd.,  
Vancouver, British Columbia*

John Ronald Longstaffe,\*  
*Executive Vice-President, Canadian Forest  
Products Ltd., Vancouver, British Columbia*

Peter Paul Saunders,  
*Chairman and President, Cornat Industries Limited,  
Vancouver, British Columbia*

\*Members of the Audit Committee.

## OFFICERS

John Gerald Prentice,  
*Chairman of the Board*

Leopold Lionel Garrick Bentley,  
*Vice-Chairman*

Peter John Gerald Bentley,  
*President*

John Ronald Longstaffe,  
*Executive Vice-President*

Alexander Gordon Armstrong,  
*Secretary-Treasurer*

Geoffrey Hart,  
*Corporate Controller*

Richard Frederick Weinman,  
*Assistant Secretary*

## HEAD OFFICE

15th Floor, 505 Burrard Street,  
Vancouver, British Columbia V7X 1B5

## TRANSFER AGENT AND REGISTRAR

*For Preference Shares:*

Yorkshire Trust Company,  
900 West Pender Street,  
Vancouver, British Columbia V6C 1L2  
518-5th Avenue S.W.,  
Calgary, Alberta T2P 0L9

*For Common Shares:*

15th Floor, 505 Burrard Street,  
Vancouver, British Columbia V7X 1B5

## STOCK EXCHANGE LISTINGS

*Preference Shares Only: Vancouver*

## BANKERS

Bank of Montreal

## SOLICITORS

Lawson, Lundell, Lawson & McIntosh  
Vancouver, British Columbia

## AUDITORS

Price Waterhouse & Co.,  
Vancouver, British Columbia

## DIVIDEND PAYMENTS ON PREFERENCE SHARES

Dividends in the amount of 27½ cents per  
preference share are payable semi-annually on the  
last days of April and October in each year.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held on  
May 3, 1978. Shareholders of the Company owning  
preference shares in the capital of the Company do  
not have the right to attend or vote at the meeting.

# Directors' report to the members

It is our pleasure to present to the members of Canfor Investments Ltd. (the "Company") this third annual report covering the twelve months ended December 31, 1977. Net earnings of the Company for the year ended December 31, 1977 were \$10,857,000, down slightly from 1976 net earnings of \$11,616,000.

There have been no changes since the last annual report in the Company's direct investment holdings. With one exception, these investments are accounted for on the equity basis. The Company's investment in Credit Foncier, which amounts to a 5.1% interest, is accounted for on the cost basis whereby only dividends received are recognized as income.

## Cornat

Cornat's 1977 consolidated net earnings of \$5,642,000 were marginally higher than the corresponding figure of \$5,277,000 for last year. The Company's equity share of these earnings was \$2,736,000 in 1977 and \$2,559,000 in 1976.

Cornat's 1977 consolidated revenues increased to \$245,392,000 from \$99,804,000 (restated) in 1976. This increase reflects, to a large extent, the effects of acquisitions included for a full year for the first time in 1977. The foregoing revenue figures exclude the results of Cornat's finance subsidiaries and certain divested operations.

In view of the major acquisitions made by Cornat during the latter part of 1976 and early 1977, the absence of a major year to year increase in earnings is somewhat disappointing. This year's earnings were adversely affected by extremely competitive market conditions in the farm equipment sphere which obliged Versatile Manufacturing Ltd. to offer extended sales terms, thereby incurring higher financing costs. However, Bralorne Resources Limited contributed significantly to Cornat's 1977 results. Bralorne's manufacturing and service operations both made gains, and active programs in its oil and gas division should produce continuing gains in the future.

Most of Cornat's other operations performed in a basically satisfactory manner during 1977, given the sluggish economic conditions and continuing cost pressures experienced in Canada last year. However, two exceptions were Quadra Steel Limited and WyMac Steel Ltd. which were disposed of in the latter part of the year. It is worth noting that exclusive of these divested businesses, Cornat's 1977 earnings from continuing operations amounted to \$6,999,000, an increase of 24% over 1976.

*The 322 foot "R" Class Canadian Coast Guard ice breaker Pierre Radisson nears completion at Burrard Dry Dock in North Vancouver.*



Overall, Cornat's past year was largely one of consolidation of companies acquired earlier, with further acquisitions in 1977 being limited to those undertaken by its subsidiaries. Bralorne purchased certain assets of NAPCO, a Winnipeg manufacturer of light standards, signal masts, and related products. Bralorne also acquired Jarco Services Ltd., a drilling tool manufacturer, and Versatile formed a marketing subsidiary in Australia to distribute its tractors and other farm equipment there directly.

The directors of Cornat and Versatile recently announced a plan for amalgamation, the details of which await the approval of the two shareholder groups and the various regulatory agencies. The effect of the proposed amalgamation, if concluded satisfactorily, will be the emergence of a larger, more effective organization to be known as "Versatile Cornat Corporation".

Cornat's 1978 results will be influenced by a continuation of such fundamental problems as inflation, slow economic growth and highly competitive international markets. However, the divestments, acquisitions and other actions taken during the past year, together with a number of new programs planned for 1978, should have a favourable affect on Cornat's earnings in 1978 and following years.

Payment of dividends by Cornat over the past year continued at the quarterly rate of 8 cents per share established in the second half of 1976, with payments totalling 32 cents per share during 1977.

### **Joint Venture Companies**

The Joint Venture Companies consist of Prince George and Intercontinental, which manufacture bleached kraft pulp and sack kraft paper in mills located at Prince George, British Columbia, and Takla Forest Products Limited, a company indirectly owned by Prince George and Intercontinental, which produces dimension lumber, studs, veneer and pulp chips at a number of locations in the north central Interior of British Columbia. An affiliated company, B.C. Chemicals Ltd., of which Prince George and Intercontinental each owns 25%, manufactures sodium chlorate and crude tall oil in a plant adjacent to the pulp and paper mills.

The net earnings of Prince George were \$6,954,000 in 1977, down 27% from 1976. For Intercontinental, 1977 net earnings were \$10,824,000, a slight increase from 1976. Revenues during 1977 were \$62,859,000 for Prince George and \$65,462,000 for Intercontinental, down 14% and 7%, respectively, from 1976. The Company's equity share of the Joint Ventures' 1977 net earnings was \$3,477,000 in the case of Prince George and \$4,058,000 in the case of Intercontinental.

Takla's net earnings in 1977 were \$6,242,000 on revenues of \$36,689,000, versus \$1,278,000 and \$25,782,000 in 1976. These earnings reflect an income tax reduction resulting from the application of prior years' losses and are included in the results of Prince George and Intercontinental on the equity basis. The financial results of Prince George and Intercontinental were affected by the serious deterioration of international pulp markets that occurred during 1977. Owing to stagnant demand and the previous buildup of pulp inventories throughout the world, serious price erosion occurred during the second half of 1977 and curtailment of production was necessary, particularly at Prince George. In the case of sack kraft paper, production levels were close to normal but prices were depressed. These negative factors more than offset the benefits arising from the lower value of the Canadian dollar and from the Joint Ventures' very effective internal cost reduction program. Another positive aspect of 1977 was the strong lumber market in the United States which permitted Takla to achieve record levels of production and earnings. Also, B.C. Chemicals experienced a profitable year in 1977 with earnings up substantially from 1976 owing to higher sales and lower manufacturing costs. The 1978 outlook for the Joint Venture Companies is not a favourable one. Only a slight improvement in the current weak world pulp markets is expected during the year and sack kraft markets are anticipated to remain highly competitive. Accordingly, 1978 revenues and earnings from pulp and paper operations will be significantly lower than in 1977. For Takla, 1978 earnings are also expected to be below 1977 levels, owing primarily to lower chip revenues and higher stumpage and wage rates, which will more than offset the positive impact of a continuing healthy demand for lumber and a favourable Canadian dollar exchange rate.

AR19

Canfor  
Investments Ltd.

Interim report for  
the six months  
ended June 30, 1977

**Canfor Investments Ltd.**

*affiliated with Canadian Forest Products Ltd.*

Fifteenth Floor / 505 Burrard St. Vancouver B.C. V7X 1B5



## President's Report to the Members

I am pleased to submit the financial statements of Canfor Investments Ltd. ("the Company") for the six months ended June 30, 1977. The net earnings for this period were \$6,211,000 compared to \$5,533,000 for the same period last year.

There have been no changes since the last report in the direct investment holdings of the Company.

The Joint Venture Companies had a satisfactory first half with net profits up 12.2% over the first six months of 1976. However, with serious oversupply and erosion of prices in the pulp and paper sector, the outlook for the second half is less favourable. This will be partially offset by improved lumber prices.

Cornat Industries' net earnings show a modest improvement over last year although revenues are substantially higher because of the inclusion of two new subsidiaries, Bralorne Resources and Versatile Manufacturing, the results of which were not applicable to the first half of last year.

Cornat's current outlook for the balance of this year is somewhat more optimistic as many of the operating problems faced in the first half have been resolved and the present level of activity is at a higher rate than in 1976. Other encouraging signs are emerging and the results for the second half should out-perform those achieved last year.

Yorkshire Trust continues to perform well and its pre-tax profits for the twelve months ended June 30, 1977 are up 13.8% over the previous twelve months. Our equity in Yorkshire's after-tax earnings is now 46.4% on a fully diluted basis as compared to 21.2% as of June 30, 1976.

Credit Foncier's earnings for the first six months are similar to those for the same period last year.

The Company's next semi-annual dividend of 27.5c per 11% preference share of \$5.00 par value each will be paid on October 31, 1977.

On behalf of the Board

Peter Denyer

P.J.G. Bentley,  
President  
August 9, 1977

Canfor Investments Ltd.

**STATEMENT OF EARNINGS**  
*For the Six Months Ended June 30, 1977 and 1976  
(Unaudited)*

	<b>1977</b>	<b>1976</b>
	(Restated)	
Equity in after-tax earnings before extraordinary items:		
Cornat Industries Limited	\$1,345,000	\$1,278,000
Prince George Pulp and Paper Limited	2,141,000	2,140,000
Intercontinental Pulp Company Ltd.	1,988,000	1,694,000
Yorkshire Trust Company	195,000	52,000
	<u>5,669,000</u>	<u>5,164,000</u>
Other investment income	206,000	261,000
	<u>5,875,000</u>	<u>5,425,000</u>
Deduct: administrative expenses	21,000	26,000
Earnings before income taxes	5,854,000	5,399,000
Income taxes provided		30,000
Net earnings before extraordinary items	<u>\$5,854,000</u>	<u>\$5,369,000</u>
Extraordinary items:		
Equity in extraordinary items of Joint Venture Companies resulting from the application of losses of prior years	357,000	164,000
Net Earnings	<u>\$6,211,000</u>	<u>\$5,533,000</u>
Earnings per common share, after reflection of preference share dividend accrual:		
Before extraordinary items	\$ 5.64	\$ 5.16
After extraordinary items	<u>\$ 5.99</u>	<u>\$ 5.32</u>

NOTE: 1976 is restated on a basis comparable with 1977.

**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
*For the Six Months Ended June 30, 1977 and 1976*  
*(Unaudited)*

*Approved by the Board*

Pete Bentley

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In view of the Joint Ventures' internal cash requirements for capital expenditures, together with their less favourable earnings outlook for 1978, no dividends are anticipated from the Joint Venture Companies during the coming year.

### **Yorkshire**

Yorkshire enjoyed a most successful year in 1977, achieving growth consistent with its plans and budgets. Net earnings for the 12 months ended December 31, 1977 were \$1,004,000 on revenues of \$14,887,000, compared to \$633,000 on revenues of \$12,164,000 for the 11 month period ended December 31, 1976. The Company's equity share of Yorkshire's 1977 net earnings was \$395,000, up substantially from \$146,000 in 1976 during which year the Company's investment in Yorkshire was increasing in stages to the 1977 level of 46.3%.

During the second half of 1977, Yorkshire concluded an agreement whereby 20,000 preference shares having a par value of \$100 each were totally subscribed for by an existing shareholder. This \$2,000,000 addition to Yorkshire's equity capitalization provides a substantial increase in Yorkshire's deposit gathering capacity, thereby furnishing a basis for continuing growth in assets and earnings.

### **Credit Foncier**

Following a good year in 1976, Credit Foncier made further sizable gains in 1977, with consolidated assets increasing by 15% and consolidated gross revenues rising by 21%. This trend of growth contributed to a 1977 consolidated net operating profit of \$9.67 per share as against \$9.30 per share in 1976. Extraordinary gains realized from the disposal of assets contributed further earnings of \$2.21 per share resulting in a consolidated 1977 net profit of \$11.88 per share compared to \$10.47 per share after extraordinary items last year. The book value of shareholders' equity as at December 31, 1977 amounted to \$100.96 per share, an increase of 8% over the corresponding figure last year.

Credit Foncier's directors will recommend to the 1978 annual general meeting of shareholders that the dividend be set at \$4.57 per share against \$4.32 in 1977. This increase amounts to 6% and is the maximum permitted under the federal government's anti-inflation program. It is worth noting that Credit Foncier has increased its dividend every year since 1958, with

the single exception of 1975 when a freeze on dividends was imposed by the federal government.

### **Purchase of Company Shares**

The terms of the preference share issue require the Company to purchase, if available, in each calendar year commencing with 1976, up to 25,000 preference shares in the open market at prices not exceeding \$5 per share plus accrued and unpaid dividends and costs of purchase. To date, no purchases have been made by the Company because, once again during 1977, the shares have consistently traded at prices above the \$5 per share level.

### **Payment of Dividends**

Having maintained the Dividend Reserve Fund at the amount of \$412,500 to provide for the payment of dividends on preference shares, the Company declared and paid during 1977 dividends totalling \$6.592 per common share to Canadian Forest Products Ltd., which company owns 100% of the issued common shares of Canfor Investments Ltd.

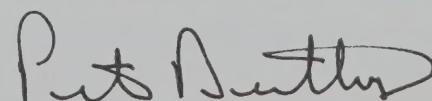
### **Board of Directors**

We were deeply saddened last year by the sudden death of one of our directors, Charles Wills; his counsel and friendship are missed greatly. Mr. Wills has been succeeded on the Board by Clark Bentall, Chairman and Chief Executive Officer, The Dominion Construction Company Limited.

### **An Expression of Appreciation**

Because the Company's earnings are a direct reflection of the results achieved by the corporations in which it has invested, a warm expression of appreciation and gratitude is in order to the personnel of Cornat, Prince George, Intercontinental, Takla, B.C. Chemicals, Yorkshire and Credit Foncier for their commendable efforts and achievements during 1977, a year which presented problems and challenges in many areas.

On behalf of the directors,



P. J. G. Bentley,  
President.

April 4, 1978  
Vancouver, B.C.

# Canfor Investments Ltd.

## STATEMENT OF EARNINGS FOR THE YEAR ended December 31, 1977

	1977	1976
Equity in earnings (see schedule):		
Cornat Industries Limited	\$ 2,736,000	\$ 2,559,000
Prince George Pulp and Paper Limited	3,477,000	4,756,000
Intercontinental Pulp Company Ltd.	4,058,000	3,930,000
Yorkshire Trust Company	395,000	146,000
	<u>\$10,666,000</u>	<u>\$11,391,000</u>
Other investment income	220,000	312,000
	<u>\$10,886,000</u>	<u>\$11,703,000</u>
Deduct: administrative expenses	29,000	37,000
Earnings before income taxes	\$10,857,000	\$11,666,000
Income taxes provided	—	50,000
Net earnings	<u>\$10,857,000</u>	<u>\$11,616,000</u>
Earnings per common share—after reflection of preference share dividend accrual (Note 7)	<u>\$10.44</u>	<u>\$11.19</u>

## STATEMENT OF RETAINED EARNINGS for the year ended December 31, 1977

	1977	1976
Balance, beginning of year	\$ 2,529,000	\$ 3,036,000
Net earnings	10,857,000	11,616,000
	<u>\$13,386,000</u>	<u>\$14,652,000</u>
Less:		
Dividends paid:		
Preference shares	\$ 275,000	\$ 275,000
Common shares	6,680,000	11,898,000
Income tax reduction resulting from application of tax loss of prior year	—	(50,000)
	<u>\$ 6,955,000</u>	<u>\$12,123,000</u>
Balance, end of year	<u>\$ 6,431,000</u>	<u>\$ 2,529,000</u>

## STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1977

	1977	1976
<b>Source of Working Capital:</b>		
Net earnings	\$10,857,000	\$11,616,000
Less: Equity income from equity investments	<u>10,666,000</u>	<u>11,391,000</u>
	<u>\$ 191,000</u>	<u>\$ 225,000</u>
Dividends from equity investments (Note 2 (a))	2,162,000	11,466,000
Income tax provision recovered by application of tax loss from prior year	—	50,000
Common shares issued for investment in Yorkshire Trust Company	—	470,000
Proceeds from disposal of investments	<u>—</u>	<u>278,000</u>
	<u>\$ 2,353,000</u>	<u>\$12,489,000</u>
<b>Application of Working Capital:</b>		
Investments acquired:		
for cash	—	\$ 3,005,000
for common shares of the Company	—	470,000
Dividends paid: preference shares	\$ 275,000	275,000
common shares	<u>6,680,000</u>	<u>11,898,000</u>
	<u>\$ 6,955,000</u>	<u>\$15,648,000</u>
Resulting in a working capital decrease of	<u>\$ 4,602,000</u>	<u>\$ 3,159,000</u>

## SUMMARY OF CHANGES IN WORKING CAPITAL

	1977	1976	Decrease
Current Assets	\$419,000	\$ 5,023,000	\$ 4,604,000
Current Liabilities	<u>8,000</u>	<u>10,000</u>	<u>2,000</u>
Working Capital	<u>\$411,000</u>	<u>\$ 5,013,000</u>	<u>\$ 4,602,000</u>

Certain 1976 figures have been reclassified to conform with 1977 presentation.

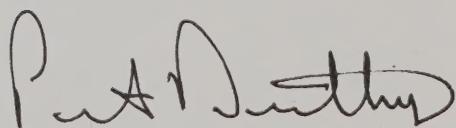
# Canfor Investments Ltd.

## BALANCE SHEET

as at December 31, 1977

	1977	1976
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 2,000	\$ 4,000
Temporary investments, at cost which approximates market value	—	5,000
Temporary investments, representing preference share dividend reserve fund, at cost which approximates market value (Note 3)	413,000	413,000
Dividends and interest receivable	4,000	4,601,000
	<u>\$ 419,000</u>	<u>\$ 5,023,000</u>
<b>Investments</b>		
At equity (Schedule to Financial Statements and Notes 2 and 4)		
Cornat Industries Limited	\$21,766,000	\$19,859,000
Prince George Pulp and Paper Limited	7,013,000	4,786,000
Intercontinental Pulp Company Ltd.	7,037,000	2,979,000
Yorkshire Trust Company	3,894,000	3,582,000
At cost		
Credit Foncier Franco-Canadien (Market value \$3,313,000, 1976 \$3,634,000) (Note 5)	<u>4,225,000</u>	<u>4,225,000</u>
	<u>\$43,935,000</u>	<u>\$35,431,000</u>
	<u>\$44,354,000</u>	<u>\$40,454,000</u>

Approved by the Board:



Director



Director

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	1977	1976
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 8,000	\$ 10,000
<b>Shareholders' Equity</b>		
Share capital (Note 6)		
11% cumulative, redeemable preference shares \$5 par value; authorized and outstanding 500,000 shares	\$ 2,500,000	\$ 2,500,000
Common shares without par value; authorized 3,000,000 shares; outstanding 1,013,425 shares	35,415,000 \$37,915,000 6,431,000 \$44,346,000	35,415,000 \$37,915,000 2,529,000 \$40,444,000
Retained earnings		
	\$44,354,000	\$40,454,000

# Canfor Investments Ltd.

## SCHEDULE OF EQUITY INVESTMENTS

December 31, 1977

**Percentage of Outstanding Common Shares Held by the Company**  
(on a fully diluted basis)

### Results for the Year:

	<b>Cornat Industries Limited</b>	1977 (Note 2)	1976
Revenues	<u>\$245,392,000</u>	<u>\$ 99,804,000</u>	
Earnings			
Earnings before income taxes	<u>\$ 23,061,000</u>	<u>\$ 9,937,000</u>	
Income taxes	<u>11,097,000</u>	<u>4,146,000</u>	
Earnings before minority interests	<u>\$ 11,964,000</u>	<u>\$ 5,791,000</u>	
Provision for minority interests (including preference dividends)	<u>6,322,000</u>	<u>514,000</u>	
Net earnings	<u>\$ 5,642,000</u>	<u>\$ 5,277,000</u>	
Equity share of net earnings	<u>\$ 2,736,000</u>	<u>\$ 2,559,000</u>	

### Carrying Value of Investments:

Shares at cost to the Company	<u>\$ 16,727,000</u>	<u>\$ 16,727,000</u>
Equity share of earnings since acquisition	<u>6,865,000</u>	<u>4,129,000</u>
Less: dividends received and receivable since acquisition	<u>\$ 23,592,000</u>	<u>\$ 20,856,000</u>
Carrying value of investments	<u>1,826,000</u>	<u>997,000</u>
	<u>\$ 21,766,000</u>	<u>\$ 19,859,000</u>

### Summary of Financial Statements:

Financial Position as at December 31,

Current assets	<u>\$131,681,000</u>	<u>\$ 51,892,000</u>
Current liabilities	<u>72,752,000</u>	<u>37,921,000</u>
Working capital	<u>\$ 58,929,000</u>	<u>\$ 13,971,000</u>
Property, plant and equipment, net book value	<u>61,304,000</u>	<u>48,158,000</u>
Investments of guaranteed investment fund	<u>—</u>	<u>—</u>
Other assets	<u>30,690,000</u>	<u>52,261,000</u>
Liabilities of guaranteed investment fund	<u>—</u>	<u>—</u>
Long-term liabilities	<u>(111,642,000)</u>	<u>(79,111,000)</u>
Net assets	<u>\$ 39,281,000</u>	<u>\$ 35,279,000</u>
Represented by:		
Share capital and contributed surplus	<u>\$ 13,477,000</u>	<u>\$ 13,438,000</u>
Retained earnings (deficit)	<u>25,804,000</u>	<u>21,841,000</u>
Shareholders' equity	<u>\$ 39,281,000</u>	<u>\$ 35,279,000</u>

Certain 1976 figures of Cornat Industries Limited have been reclassified to conform with Cornat's 1977 presentation.

In the case of Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd. minor adjustments of \$69,000 to prior years' net income in each case have been reflected in the 1977 results in order to avoid minor restatement.

<b>Prince George Pulp and Paper Limited</b>		<b>Intercontinental Pulp Company Ltd.</b>		<b>Yorkshire Trust Company (Unaudited)</b>	
1977 (Note 7)	1976	1977 (Note 7)	1976	1977 (Notes 2 & 4)	1976
50	50	37.5	37.5	46.3	46.3
\$ 62,859,000	\$ 72,955,000	\$ 65,462,000	\$ 70,245,000	\$ 14,887,000	\$ 12,164,000
\$ 9,161,000	\$ 16,981,000	\$ 16,955,000	\$ 19,188,000	\$ 2,094,000	\$ 1,075,000
2,207,000	7,469,000	6,131,000	8,709,000	1,053,000	442,000
\$ 6,954,000	\$ 9,512,000	\$ 10,824,000	\$ 10,479,000	\$ 1,041,000	\$ 633,000
—	—	—	—	37,000	—
\$ 6,954,000	\$ 9,512,000	\$ 10,824,000	\$ 10,479,000	\$ 1,004,000	\$ 633,000
\$ 3,477,000	\$ 4,756,000	\$ 4,058,000	\$ 3,930,000	\$ 395,000	\$ 146,000
\$ 9,158,000	\$ 9,158,000	\$ 4,834,000	\$ 4,834,000	\$ 3,475,000	\$ 3,475,000
9,105,000	5,628,000	8,803,000	4,745,000	541,000	146,000
\$ 18,263,000	\$ 14,786,000	\$ 13,637,000	\$ 9,579,000	\$ 4,016,000	\$ 3,621,000
11,250,000	10,000,000	6,600,000	6,600,000	122,000	39,000
\$ 7,013,000	\$ 4,786,000	\$ 7,037,000	\$ 2,979,000	\$ 3,894,000	\$ 3,582,000
\$ 31,016,000	\$ 22,701,000	\$ 18,663,000	\$ 29,722,000	\$ 8,559,000	\$ 6,022,000
29,504,000	17,342,000	12,052,000	26,869,000	836,000	1,200,000
\$ 1,512,000	\$ 5,359,000	\$ 6,611,000	\$ 2,853,000	\$ 7,723,000	\$ 4,822,000
59,180,000	57,302,000	54,717,000	53,125,000	796,000	780,000
—	—	—	—	125,487,000	106,226,000
10,539,000	6,889,000	10,274,000	7,010,000	172,000	146,000
—	—	—	—	(125,487,000)	(106,226,000)
(57,207,000)	(59,980,000)	(52,832,000)	(55,042,000)	(1,195,000)	(1,083,000)
\$ 14,024,000	\$ 9,570,000	\$ 18,770,000	\$ 7,946,000	\$ 7,496,000	\$ 4,665,000
\$ 10,000,000	\$ 10,000,000	\$ 8,000,000	\$ 8,000,000	\$ 4,681,000	\$ 2,681,000
4,024,000	(430,000)	10,770,000	(54,000)	2,815,000	1,984,000
\$ 14,024,000	\$ 9,570,000	\$ 18,770,000	\$ 7,946,000	\$ 7,496,000	\$ 4,665,000

# Canfor Investments Ltd.

## NOTES TO FINANCIAL STATEMENTS

December 31, 1977

### 1. Corporate Relationship

The Company is a subsidiary of Canadian Forest Products Ltd., which company owns all the issued common shares.

### 2. Accounting Principles

The following accounting principles have been applied:

- (a) The investments in Cornat Industries Limited, Prince George Pulp and Paper Limited, Inter-continental Pulp Company Ltd. and Yorkshire Trust Company (Note 4) are such that they are appropriately accounted for on the equity basis whereby the Company reflects in its statement of earnings its proportionate share of investee earnings and increases the carrying values of the investments by these amounts. Dividends receivable from these affiliates are accrued as at the dates of record and are deducted from the carrying values of the investments.
- (b) The cost of the investment in Yorkshire Trust Company, acquired in 1976, was \$1,449,000 in excess of underlying book values of the assets at the times of acquisition. Of this amount \$47,000 is deemed attributable to land and the balance of \$1,402,000 is being amortized over 20 years, in the amount of \$70,000 per annum. At December 31, 1977, the unamortized amount was \$1,289,000. Equity earnings of Yorkshire Trust Company reflected in the Statement of Earnings and Schedule of Equity Investments are after deduction of amortization.
- (c) The cost of the investment in Cornat Industries Limited, acquired in 1975, was \$2,454,000 in excess of underlying book values of the assets at the time of acquisition. This amount is attributable to land held by certain of that company's subsidiaries and consequently is not being amortized.

(d) The investment in shares of Credit Foncier Franco-Canadien is such that it is not appropriate to account for it on the equity basis and it is therefore accounted for on the cost basis whereby the Company recognizes as income only dividends received.

(e) Interest income is accounted for on the accrual basis.

### 3. Preference Share Dividend Reserve Fund

Pursuant to the terms of issue of the preference shares, a dividend reserve fund of \$413,000 was created in January, 1976 to provide for payment of dividends to the holders of the preference shares. During the year the fund was used for the payment of preference share dividends of \$275,000 and was subsequently replenished by an equal amount.

### 4. Yorkshire Trust Company

The Company has the option until 1986 to acquire sufficient additional common shares of Yorkshire Trust Company from Columbia Western Management Ltd. to increase its investment to 50.1%, on a fully diluted basis.

The results of Yorkshire Trust Company reflected in the Schedule of Equity Investments are from February 1, 1976, the date of the initial acquisition of shares by the Company, at which time equity accounting became appropriate.

### 5. Credit Foncier Franco-Canadien

The market value of the investment in shares of Credit Foncier Franco-Canadien was \$912,000 below cost at December 31, 1977. In the opinion of senior management of the Company this decline in value is not permanent and consequently a reduction in the carrying value of the investment is not appropriate.

## **6. Share Capital**

On or before October 31, 1980 the Company may purchase all or part of the preference shares then outstanding at a price per share not exceeding \$6 and thereafter at the then current redemption price. The Company may redeem the preference shares from October 31, 1980 to October 31, 1985 at prices which range from \$5.50 to \$5.10 per share and at a price of \$5 per share if redeemed after October 31, 1985. In addition, the Company shall purchase, if available, in each year commencing January 1, 1976, up to 25,000 preference shares in the open market at prices not exceeding \$5 per share plus accrued and unpaid dividends and costs of purchase. No shares were available for purchase in 1976 and 1977 at this price.

## **7. Extraordinary Items of Equity Investments**

The 1977 earnings of Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd. are after reflecting extraordinary income totalling \$2,724,000 of which the Company's equity share amounts to \$1,191,000. This extraordinary income, which relates to application of prior years' losses against current income taxes by an equity investment of these companies, has increased earnings per common share by \$1.17.

## **8. Remuneration of Directors and Senior Officers**

Directors' fees aggregating \$2,750 were paid in the year (1976—\$3,000). No other amounts were paid or credited to the directors or senior officers of the Company in the year.

## **9. Federal Anti-Inflation Legislation**

The Company and its affiliates are subject to, and believe they have complied with, the Anti-Inflation Act. As the Company is a subsidiary of Canadian Forest Products Ltd., which is itself subject to the Act, common share dividends paid to it by the Company are not subject to control.

## **AUDITORS' REPORT**

To the Shareholders of  
Canfor Investments Ltd.

We have examined the balance sheet of Canfor Investments Ltd. as at December 31, 1977 and the statements of earnings, retained earnings and changes in financial position for the year then ended. For Canfor Investments Ltd. and for those other companies of which we are auditors that are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For Cornat Industries Limited, which is accounted for by the equity method, we have relied upon the report of the auditors who have examined its financial statements.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Price Waterhouse & Co*

Chartered Accountants.

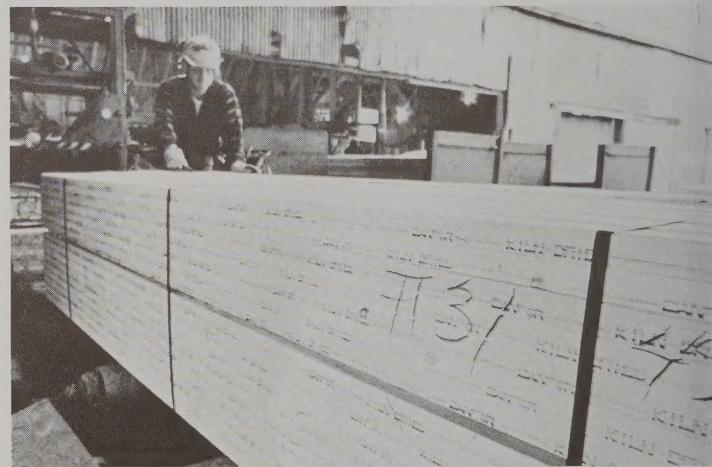
Vancouver, B.C.  
March 21, 1978.



Versatile held the largest dealer meeting in its history last year, urging its dealers to "share our reputation for innovation."



Yorkshire Trust reported that in 1977 its nine branches had 20,000 depositors with deposits totalling over \$111 million.



Takla's lumber production reached a new record of 212.2 million board feet in 1977.



This 40 acre aeration lagoon went into operation in December 1977 at the Prince George millsite. It was the second part of a \$12 million program to upgrade the Joint Venture pulp and paper mills' effluent discharges to within the level "A" target of the Pollution Control Branch.



